REPORT TO:	**GENERAL PURPOSES AND AUDIT COMMITTEE** **29 JUNE 2016**
AGENDA ITEM:	**9**
SUBJECT:	**FINANCIAL PERFORMANCE REPORT FOR 2015/16**
LEAD OFFICER:	**RICHARD SIMPSON** **ASSISTANT CHIEF EXECUTIVE CORPORATE RESOURCES AND SECTION 151 OFFICER**
CABINET MEMBER:	**COUNCILLOR SIMON HALL CABINET MEMBER FOR FINANCE AND TREASURY**
WARDS:	**ALL**

CORPORATE PRIORITY/POLICY CONTEXT:

The report is a statutory requirement and communicates to our key stakeholders the Council's financial performance and outcome for the period 1 April 2015 to 31 March 2016. This reporting requirement is a key stage in the communication of the delivery of the Council's Financial Strategy and maps progress in the achievement of the objectives contained within the strategy.

FINANCIAL SUMMARY:

This report sets out the financial performance of the Council for the period 1 April 2015 to 31 March 2016.

FORWARD PLAN KEY DECISION REFERENCE NO.:

RECOMMENDATIONS

The Committee(s) is asked to:

1.1 Approve the levels of reserves and provisions set out in section 7.4 of the report, as recommended by the Section 151 Officer;

1.2 Note the Council's outturn position, and the progress of the Council's current Financial Strategy objectives;

1.3 Note the departmental outturn variances as contained within Table 2 and Appendix 1 of the report;

1.4 Note that a report seeking final approval of the accounts following their review by external audit will be presented prior to the deadline of the 30th September 2016.

2. EXECUTIVE SUMMARY

2.1 This report presents to the Committee progress on the delivery of the Council's Financial Strategy (FS). The final budget position of the Council for 2015/16 was an under spend of (£1.161m), which has allowed the authority to add to its levels of earmarked reserves.

2.2 The Council has met the challenge of reducing grant since 2010 and maintained a robust financial position. The Financial Strategy for 2015/19, which was approved on a recommendation of Cabinet on the 17th of February 2015 to full Council (Minute A21/15, Council Meeting 23rd February 2015), sets out the strategy for managing the significant financial challenge for the medium term.

2.3 In summary 2015/16 was the fifth successive challenging financial year in the Government's Deficit Reduction Programme and the prevailing economic climate of low growth. The magnitude of government grant cuts resulting again in a high level of savings needing to be achieved to balance the budget. The Council's financial management and controls had identified potential pressures totalling £3.163m early in the year, and a series of actions were identified and agreed in the Autumn Financial Statement to manage this challenge. These included:

- All recruitment was approved on a case by case basis
- A full review of interim staffing was undertaken
- Additional governance measures put in place for Social Care placements
- A review of fees & charges was undertaken

2.4 These measures have played an important part in controlling the Council's expenditure during 2015/16, resulting in a final outturn position some £4.3m lower than the initial Quarter 1 projected over-spend. General Fund balances remain at £10.677m and have not changed during 2015/16.

2.5 The target set out in the Financial Strategy is to hold General Fund balances of 5% of the council's net budget requirement. For 2016/17 this equals £13m. The Financial strategy made clear that although 5% remains a target there are no plans to actively move towards the target in cash terms over the medium term as the council's budget is expected to reduce by in the region of £26m over this period. This would see the 5% target reduce by £0.5m, making it £11.6 m by the end of 2020.

2.6 The Council's under spend of (£1.161m) was made up of Departmental over spends of £8.527m offset by non-departmental underspends of (£9.688m). Details are provided in Table 1, Section 3 of this report.

2.7 The Council's earmarked reserves have increased by £2.587m to £32.171m. Whilst a number of targeted funding streams have continued to be drawn out of reserves in 2015/16 to support delivery, £7m of funding for Croydon's proposed Growth Zone has been added, and will be used to fund early life costs of this project.

2.8 Locally Managed Schools' revenue reserves have decreased by £2.361m to £7.339m, which continues to reflect the conversion of maintained schools to academy status.

2.9 The Council's General Fund Provisions have increased slightly from £33.513m to £36.365m as at 31st March 2016.

2.10 The Collection Fund has carried forward an overall deficit of £13.743m, of which Croydon's share is a surplus of (£2.407m). Croydon's share is comprised of a Council Tax surplus of (£10.472m) and a Business Rates deficit of £8.065m.

2.11 The Council's Pension Fund increased in value in 2015/16 by £16.6m (1.9%) to a value of £875m.

2.12 The draft accounts are being prepared, and will be presented to the Council's external auditors by the statutory deadline of 30th June 2016. However, in anticipation of the statutory deadline moving forward by 1 month in 2018, the Council has been trialling a faster closedown process for 2015/16. This allowed a draft set of accounts to be shared with external audit on the 6th June, some three and a half weeks ahead of the deadline. There are a number of assumptions and estimates used in the preparation of the draft accounts, which are set out in Section 8 of this report.

2.13 The Accounts and Audit Regulations 2015 no longer require the draft accounts to be approved by those charged with governance, and the draft accounts do not form an appendix to this report. However, this report does summarise the Council's financial position at the end of 2015/16, and provides an update on progress towards the Council's financial strategy objectives. The council's draft accounts will be published once submitted to External Audit, and copies will be made available in the member's area to allow them to be scrutinised in more detail. This is in addition to the statutory public inspection periods.

2.14 The draft accounts will be subject to external audit. If there are any significant changes, they will be reported later in the year within the Grant Thornton external audit report. The audited final accounts are expected to be available by 30 September 2016. A report will then be presented to the General Purposes and Audit Committee on the outcome of the audit, along with the report to Members charged with Governance as per established good governance practice in previous years.

3. GENERAL FUND REVENUE ACCOUNT OUTTURN 2015/16

3.1 Departmental spend was £8.527m more than budgeted in 2015/16. The areas of overspend are those that have in the main been reported to Cabinet throughout the year and reflect the areas of the council's budget that is impacted heavily by demand and our statutory responsibilities. Growth has been built into the 2016/17 to reflect a new achievable budget for these areas. The main overspends were on care packages for personal support, an increase in the Children In Need Service, Adult Services and Temporary Accommodation, including Bed & Breakfast due to an increase in demand for the service.

3.2 Despite the financial pressures placed on the budget, the Council has maintained strong financial controls throughout the year. As shown in Table 1, underspends on non-departmental spend enabled the council to make (£9.688m) of savings to offset departmental pressures.

Table 1 Revenue Outturn Summary for 2015/16

Quarter 3 forecast outturn variance	Department	Revised Budget	Outturn 2015/16	Variation from Revised Budget	
£'000		£'000	£'000	£'000	%
11,881	People	227,560	237,265	9,705	4.3%
(261)	Place	74,609	74,394	(215)	(0.3%)
(1,230)	Resources	36,281	35,318	(963)	(2.7%)
10,390	**Departmental total**	**338,450**	**346,977**	**8,527**	2.5%
(9,788)	**Non-Departmental Items**	**(338,450)**	**(348,138)**	(9,688)	**(2.9%)**
0	**Net Expenditure**	0	(1,161)	(1,161)	
602	**Total transfer to / (from) balances**	**0**	**0**	**1,161**	

3.3 The main variances (over £500k) that contributed to the departmental overspend are summarised in Table 2 below. A complete breakdown of all variances is shown in Appendix 1.

Table 2 - Analysis of main departmental variances 2015/16 (+/- £500k)

Department / Division	Favourable variance £000	Unfavourable variance £000	Comments
PEOPLE			
Personal Support		2,589	Increased demand for services regarding Learning Disability, and costs associated with Ordinary Residence cases
Personal Support		619	Physical disability service is under financial pressure from substance misuse client volumes, as well as increased staffing costs.
Children In Need		1,466	Additional staffing costs agreed ahead of the recruitment freeze, as well as increased demand on package cost and legal costs
Looked After Children		2,208	Increased adoption costs, along with Special Guardianship Order costs. Additional staff costs as a result of agency staff to cover vacancies
Early Intervention and Support Services	(1,758)		Use of previously received external funding associated with the Troubled Families Programme, as well as savings from the recruitment freeze and contract commissioning.
Croydon Transport Services		1,213	Combination of Special Educational Needs and adult transport over spends due to additional demand.
Gateway and Welfare		2,076	Over spends in relation to emergency accommodation
Adult Learning		523	Reduction mid-year in Skills Funding Agency grant
All divisions		990	Sub-total of pressures under £500k within People department
SUB-TOTAL	**(1,758)**	**11,463**	
TOTAL PEOPLE DEPARTMENT		**9,705**	

Department / Division	Favourable variance £000	Unfavourable variance £000	Comments
PLACE			
Planning	(744)		Additional Planning Income
All divisions		529	Sub-total of pressures under £500k within the Place Department
TOTAL PLACE DEPARTMENT		**(215)**	
RESOURCES			
Finance & Assets	(777)		Refund on business rates across the corporate estate
All divisions	(186)		Sub-total of pressures under £500k within the Resources Department
TOTAL RESOURCES DEPARTMENT		**(963)**	

3.4 Table 3 below shows the major variances relating to non-departmental expenditure.

<u>Table 3 - Analysis of non departmental variances 2015/16 (+/- £500k)</u>

Department	Favourable variance £000	Unfavourable variance £000	Comments
NON DEPARTMENTAL ITEMS			
	(2,529)		Additional grant funding received. This includes Business rate grants received from the government as a result of the lower than RPI business rate increase and the extension of the small business rate relief. The actual amount of grant was not confirmed to very late in the financial year.
	(1,000)		Contingency held within the revenue budget
	(6,159)		Savings arising from borrowing costs being lower than anticipated, as well as a reduction in the charge for repayment of debt (minimum revenue provision)
TOTAL NON-DEPARTMENTAL ITEMS	**(9,688)**		

3.5 Table 4 below shows the resultant position on the Council's balances and reserves as at 31 March 2016, compared with previous years. This table excludes Locally Managed Schools (LMS) reserves, as they are controlled by Schools.

Table 4 - Analysis of Movement in Reserves and Balances

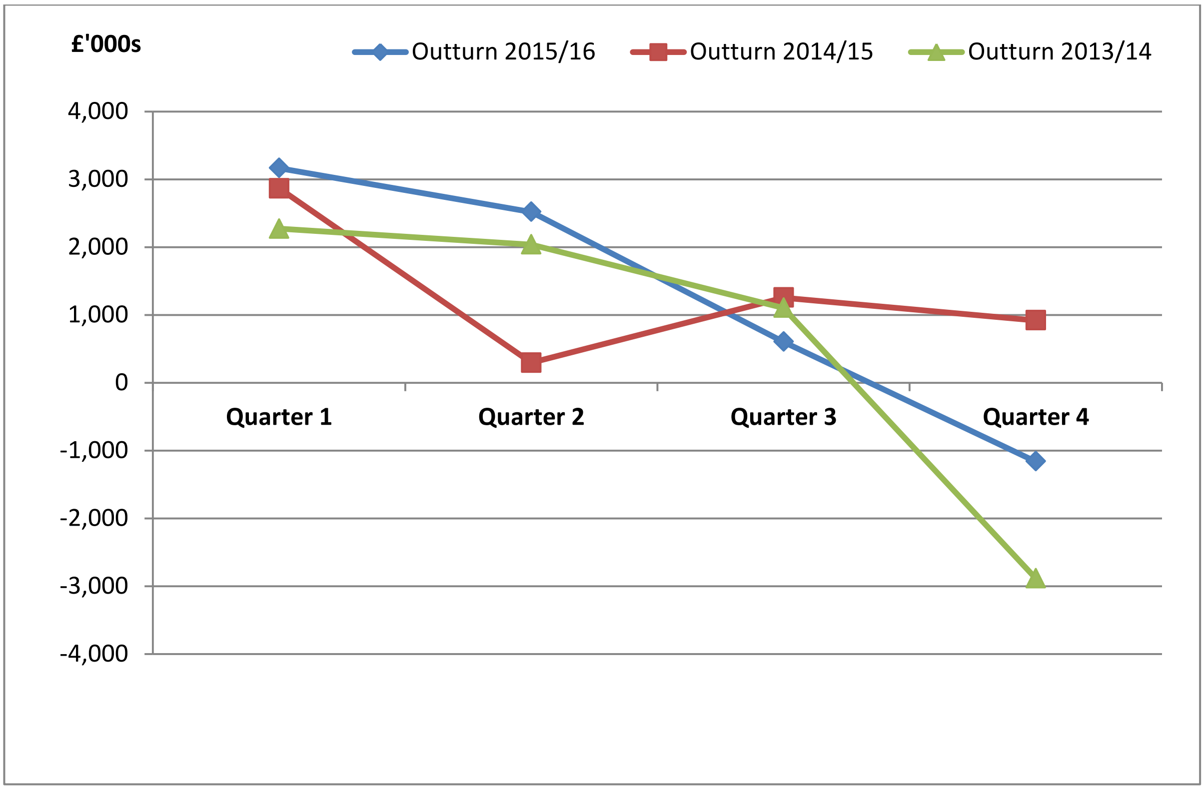
Balances and Reserves	2013/14 £m	2014/15 £m	2015/16 £m
General Fund Balances	11.6	10.7	10.7
Earmarked Reserves	59.4	29.5	32.1
General Fund Provisions	33.4	33.5	36.4
Total	**104.4**	**73.7**	**79.2**

3.6 Further details of earmarked reserves are provided in Section 7.4 of this report.

3.7 REVENUE BUDGET MANAGEMENT

3.7.1 The overall revenue outturn position for 2015/16 is a £1.161m underspend. The past few financial years have been very challenging both due to financial constraints and increased demand for Council services. The Council has in place a strong financial management framework, and has continued to rigorously monitor, manage and control spending within the framework of the Financial Strategy. Graph 1 below shows the movement of forecast variances through 2015/16 and comparison with previous years.

Graph 1 – Comparison of Council Forecast Outturn 2013/14 to 2015/16



3.7.2 As can be seen from the movement in outturn forecasts over the past 3 years, the Council continues to face increasing pressures in the delivery of services. The pressures in terms of grant loss experienced by Local Government have continued into the current year. The Council has required the use of non-departmental savings to ensure budget delivery within resources available. Table 5 shows the overall Council position including non-departmental savings over the last 3 years.

Table 5 – Council quarterly forecast outturn

Quarter	TOTAL 2015/16 £'000	TOTAL 2014/15 £'000	TOTAL 2013/14 £'000
Quarter 1	**3,163**	**2,864**	**2,271**
Quarter 2	**2,519**	**294**	**2,037**
Quarter 3	**602**	**1,253**	**1,103**
Quarter 4	**-1,161**	**920**	**-2,885**

3.7.3 This table highlights clearly the effect of in-year actions identified and agreed by the financial monitoring process. Through a combination of departmental and non-departmental savings, the projected over-spend of

£3.163m was avoided, and instead a favourable outturn position achieved.

4. CAPITAL OUTTURN 2015/16

4.1 The original approved capital programme totalled £156.1m, which was increased during the year to £175.2m to reflect both programme slippage and any additional government grants. Outturn capital spend was £125.1m, with the resultant underspend of (£50.1m) (28.6%) mainly attributable to slippage in the delivery of schemes. Table 6 below, shows spending against budget by Department in 2015/16 and Appendix 2 provides a detailed breakdown of spend against budget for the capital programme.

Table 6 – Capital Outturn Variances for 2015/16

Department	Original Budget £'000s	Budget Adjustments £'000s	Revised Budget £'000s	Outturn £'000s	Outturn Variance £'000s
People	86,509	-24,847	61,661	40,122	(21,539)
Place	24,962	28,616	50,079	40,181	(9,897)
Resources	4,030	16,442	20,472	11,177	(9,295)
General Fund	**115,501**	**20,211**	**132,212**	**91,480**	**(40,731)**
Housing Revenue Account	40,621	2,336	42,957	33,618	(9,399)
Total Capital	**156,122**	**22,547**	**175,169**	**125,098**	**(50,070)**

4.2 The impact of slippage from 2015/16 into the 2016/17 capital programme will be considered as part of the July Financial Review Cabinet report. Capital schemes in 2015/16 included the following:

- Meeting the needs of the Education Estates Strategy
- Delivery of Improvement works to highways
- Improvements to the Public Realm as part of the Connected Croydon Programme.
- Continuing the drive to meet the Decent Homes Standard;

5. HOUSING REVENUE ACCOUNT (HRA)

5.1 The final outturn shows a surplus of **£2.99m** which has been transferred to HRA reserves. The variances to budget that are on-going will be included in the budget planning for 2016/17.

5.2 The main variances of revenue spend against budget are set out in Table 7 below.

Table 7- Analysis of Housing Revenue Account Variances 2015/16

Division	Favourable variance £000	Unfavourable variance £000	Detailed explanation
HRA - People	(405)		Underspend due to a combination of additional lease income, and legal expenditure being lower than expected.
HRA - Place	(500)		Underspends in relation to repairs contract
	(294)		Combination of other minor under-spends across the division
HRA – Central Costs	(1,800)		HRA contingency budget not fully utilised
Total HRA	**(2,999)**		

5.3 Capital expenditure totalled £33.618m. Expenditure was lower than the revised budget of £42.957m by £9.339m. This is mainly due to slippage on Phase 4 of the Council Housing new build programme.

5.4 The Contingency reserve is set at 3% of total income, which is viewed to be appropriate to the level of risk within HRA income. The balance of the under-spend has been transferred to the earmarked reserve for new housing supply, although the overall level of new housing supply has reduced by £3.450m as a result of using £6.45m to finance capital expenditure. Table 8 below shows the resultant position on the HRA balances and reserves at 31 March 2016 compared with previous year.

Table 8 – Movement in HRA reserves and balances

HRA	Balance at 01-Apr-15 £m	HRA Outturn 2015/16 £m	Balance at 31-Mar-16 £m
Earmarked Reserve – New housing supply	(11,272)	1,852	(9,420)
Contingency Reserve (target 3%)	(3,995)	1,598	(2,397)
Total	**(15,267)**	**3,450**	**(11,817)**
Major Repairs Reserve	(1,425)	(360)	(1,785)
Total	**(16,692)**	**3,090**	**(13,602)**

6. PENSION FUND AND TREASURY MANAGEMENT

6.1 The accounts for the Pension Fund are included, as a separate set of accounts, within the Croydon Borough Council's annual accounts publication. Table 9 below shows the change in the value of the Croydon Pension Fund during 2015/16: -

Table 9 - Pension Fund Performance 2015/16

Composition of Net Assets	2014/15 £000	2015/16 £000	Increase / (decrease) £000	Change %age
Fund Managers				
Investments	839,586	871,368	31,782	3.8
Other balances	1,205	1,501	296	24.6
Cash	10,105	4,310	(5,795)	(57.3)
London Borough of Croydon				
Debtors	1,832	3,143	1,311	71.5
Creditors	(4,882)	(8,159)	(3,277)	67.1
Cash	10,174	2,523	(7,651)	(75.2)
Net Assets at Year-End	**858,020**	**874,686**	**16,666**	**1.9**

6.2 The net value of the Fund has increased by 1.9% over the reporting period. The diversified nature of the investment strategy has ensured that the fund has been able to deliver growth throughout the year, albeit in aggregate performance was marginally below the benchmark set. In response to a changing macro-economic landscape, the strategic asset allocation has been reviewed. The process of restructuring the asset allocation is ongoing.

6.3 A critical function of the Pensions Committee is to ensure that the Asset Allocation Strategy matches the current economic climate in order to stabilise returns and reduce portfolio volatility whilst closing the funding gap. In the long-term, this will allow the Fund to meet its current and future liabilities to pensioners and stabilise employer contribution rates, without putting an additional burden on council tax payers. The economic outlook suggests slow growth in the developed world and further uncertainty in the euro zone, but suggests recovery from the Global Financial Crisis is more robust. However significant headwinds still prove challenges in terms of meeting our targets. Table 10 below shows annualised performance by asset class over the 12 months to 31 March 2016.

Table 10 – Performance by asset class for the year end 31/03/16

Asset Class	Value at 31-3-2016 £m	Aggregated return %	Aggregated benchmark %	Over / Under performance %
Global Equities	498.7	(0.9)	(0.6)	(0.3)
Global Bonds	59.2	2.1	2.4	(0.3)
Global Bonds and Absolute Returns	120.8	0.2	1.9	(1.7)
Private Equity	59.1	12.8	2.0	10.8
Infrastructure	42.7	13.5	12.0	1.5
Property	92.4	11.5	10.6	0.9
Cash	4.3	0.3	0.3	-
Total Fund	**877.2**	**1.9**	**2.1**	**(0.2)**

Treasury Management –

6.4 The Assistant Chief Executive Corporate Resources and Section 151 Officer is responsible for setting up and monitoring the Prudential Indicators in accordance with the Council's Capital Strategy and Treasury Management Strategy.

6.5 The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. The Code was updated in 2011 and the Council has adopted this updated Code of Practice on 26 February 2013 (Minute A31/13).

6.6 The Prudential Indicators set will continue to be monitored throughout the year and will be reported to Cabinet on a quarterly basis. The indicators break down into four blocks relating to capital expenditure, the affordability of that investment programme, debt and treasury management as follows:

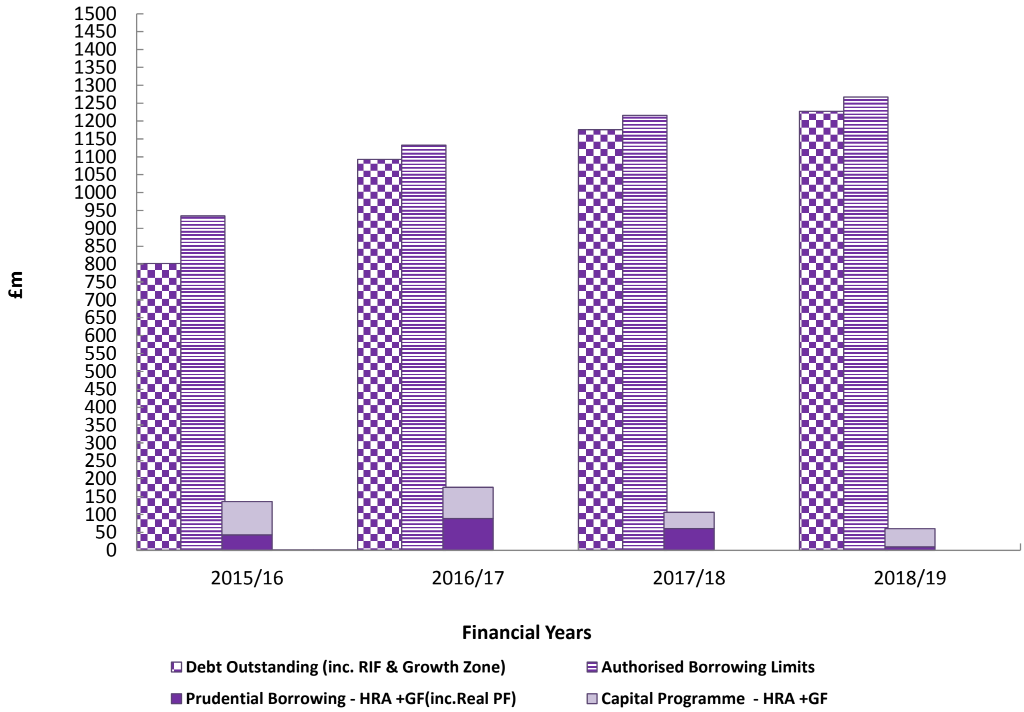
6.7 The capital investment indicators reflect the Authority's future plans to undertake capital works, and the extent to which these will be funded through borrowing. Hence, in the budget for 2016/17, £176.185m of investment is planned, £88.867m of which is to be financed from borrowing.

6.8 Apart from borrowing that is supported by government grant funding, the cost of new prudential borrowing to the Authority will be £14.00 per Band D council taxpayer in 2016/17. This Prudential Indicator reflects the impact of funding decisions relating to capital investment in Croydon. The Prudential Code specifically indicates that it is not appropriate to compare this indicator with other authorities.

6.9 The external debt indicators illustrate the calculation of the affordable borrowing limit. The treasury indicators show that the Authority will limit its exposure to variable rate debt to no more than 20% of total debt and will only invest up to 30% of the total investments for periods in excess of one year for reasons of limiting exposure to risk and guaranteeing adequate liquidity.

6.10 The final indicator in graph 2 below sets a profile for the maturing of new debt.

Graph 2: Prudential Indicators for 2015/16 to 2018/19



Borrowing -

6.11 As part of its Treasury management framework the Council agreed a set of Prudential Indicators covering 2015/16 and the next three years on a rolling programme. These indicators relate to capital investment and the treasury function to provide a level of assurance that investment and borrowing decisions are sustainable, affordable and prudent, and are shown in Table 11 below:

6.12 The affordability of financing costs for General Fund and HRA capital spending, reflected in the ratios of net financing costs to the revenue streams, showed an improvement over budget as a result of the Council securing long term funding during the year at lower than anticipated interest rates. This funding was primarily from the European Investment Bank.

6.13 The impact of unsupported borrowing on Band D council tax levels was less than anticipated because of the lower cost of new borrowing undertaken in the year.

Table 11 - Prudential Indicators

	PRUDENTIAL INDICATORS 2015-16	Revised Budget £'000	Outturn £'000	Notes
1.	**Prudential Indicators for Capital Expenditure**			
1.1	In year Capital Financing Requirement			
	- General Fund	51.431	43.014	
	- HRA	5.217	0.000	
	Total	56.648	43.014	
2.	**Prudential Indicators for Affordability**			
2.1	Ratio of financing costs to net revenue stream			
	- General Fund	10.0%	7.91%	
	- HRA	16.0%	15.90%	
2.2	General Fund impact of Prudential (unsupported) borrowing on Band D Council Tax levels (per annum)			
	- In year increase	£4.00	£1.82	
2.3	HRA impact of Prudential (unsupported) borrowing on housing rents (per annum)	0	0	
3.	**Prudential Indicators for External Debt**			
3.1	Borrowing Requirement			
	Total Debt brought forward 1 April 2015	760.839	760.839	Note 1
	Total Debt carried forward 31 March 2016	895.071	801.584	

Note 1 – Of the £760.839m debt brought forward at 1/4/2015, £223.126m relates to long term loans taken up from the PWLB on 28/3/12 for the HRA Self Financing settlement payment. This sum was paid to the Government to exit the national HRA Subsidy system.

7. PROGRESS AGAINST THE CURRENT FINANCIAL STRATEGY

7.1 The Financial Strategy that was approved on a recommendation of Cabinet to full Council (Minute A21/15, Council Meeting 23 February 2015), established the overriding financial objectives of the Council for the medium term. These 3 core objectives ensure alignment of the Council's overall strategic priorities and resources. These objectives are as follows:

(a) To Maximise economic growth locally
(b) To realign our resources to protect our front line resources as much as possible
(c) To ensure we retain a strong financial management framework and systems

Progress in 2015/16 made against the Council's 2015/19 Financial Strategy is set out below against each of the Strategy Objectives.

7.2 TO MAXIMISE ECONOMIC GROWTH LOCALLY -

7.2.1 The establishment of the Revolving Investment Fund (RIF) has enabled the Council to help deliver local economic growth by undertaking direct investment to drive the pace of growth in conjunction with the private sector.

7.2.2 The decision to establish the RIF as a vehicle to offer this support will focus initially on the delivery of sites within the council's current ownership linking with the key objectives of the councils approved Asset Strategy.

<u>Achievements in 2015-16 towards this objective</u>

7.2.3 Details of some of the initiatives delivered in 2015/16 are set out below:

- **Croydon Enterprise Loan Fund**

  The Croydon Enterprise Loan Fund (CELF) funded by the Council, has been providing loans for start-ups and small businesses that have difficulty accessing finance from banks. Since its start in 2008, loans have now hit the £2m milestone.

- **Launch of Growth Plan**

  A council Growth Plan was launched including creating 16,000 jobs, 9,500 new homes, revitalising district centres, re-establishing Croydon as London's premier retail and leisure destination, and as outer London's prime office centre

- **Growth Zone**

  Croydon Council was awarded £7m from Chancellor for growth zone funding, which will accelerate council's £5.25bn regeneration programme, creating 23,500 new jobs.

- **Public realm improvements**

  As part of the regeneration of West Croydon, the Council spent over £5m towards delivering a new bus station in conjunction with Transport for London, and the Council has continued to make public realm improvements along London Road and Old Town, improving shop frontages and improving footpaths. The Council has made further improvements to its District Centres, with investment in Thornton Heath and South Norwood planned for the forthcoming year.

7.3 TO REALIGN OUR RESOURCES TO PROTECT OUR FRONT LINE RESOURCES AS MUCH AS POSSIBLE

7.3.1 The Council's aim is to rebalance the resources of the organisation to ensure that there are more of our resources directed to support the delivery of front line services, and that over time the cost of the enabling services which support the front line are reduced.

Achievements in 2015-16 towards this objective

7.3.2 Details of some of the initiatives delivered in 2015/16 to realign resources are set out below:

- The creation of the new Gateway service brought together services designed to comprehensively address customer issues with housing, welfare, and debt management. The results so far have been overwhelmingly positive. The Gateway and Welfare division has helped over 1,100 of Croydon's most severely affected families avoid homelessness, 5,400 people to become more financially independent and supported 587 residents into employment.

- In parallel with the Gateway programme, the Council has established a Think Family panel to consider the needs and cost of selected target groups to test out where a cross-departmental response has the greatest ability to improve outcomes for individuals/households and reduce costs for the council. Looking at the whole family picture from multi-disciplinary perspectives enabled new and different conversations that wouldn't have happened otherwise. The review identified significant opportunities to work in different ways to improve customer outcomes and reduce costs

- Re procured the Facilities Management contract, going live in July 2016. Implemented the Asset Strategy to generate income and reduce expenditure. The most significant achievement being the contract to let part of BWH to a private company, generating £7.5m of income over the next ten years.

- Continued use of the Community Priority fund to deliver a series of initiatives that make a difference to residents.

7.4 TO ENSURE WE RETAIN A STRONG FINANCIAL MANAGEMENT FRAMEWORK AND SYSTEMS

7.4.1 Over the last three years the council has worked hard to maintain financial stability. Given the turbulent economic environment faced, maintaining financial stability will be essential in order to continue to maintain a medium to long term strategic focus for the Borough and its priorities.

7.4.2 The level of general fund balances as at 31st March 2016 is £10.677m. This represents 4.1% of 2016/17's net budget requirement against a Financial Strategy target of 5%. Table 13 below sets out actual general fund balances against the targeted level.

Table 13 – Comparison of General Fund Target Balance with Actual Balances

Year	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2018/19
Target 5% (£m)	13.4	14.6	13.9	13.4	13.0	11.75	11.6
General Fund balances (£m)	11.6	11.6	10.7	10.7	n/a	n/a	n/a

7.4.3 The Council has a General Fund balance of **£10.677m** as at 31st March 2016 and earmarked reserves of **£32.171m** excluding Schools reserves.

7.4.4 The General Fund balances are in place to meet unanticipated costs arising in the year or budget overspends. The appropriate level of the General Fund balances has regard to assessment of risks from the external environment that may result in overspending and impact on the Council's financial position in the context of the overall arrangements that the Council has for mitigating risks, including earmarked reserves detailed in table 14 below.

Table 14 – Analysis of earmarked reserves (greater than £0.5m)

Reserve	Balance 31/03/2016 £m	Balance 31/3/2015 £m
NON DEPARTMENTAL		
Transformation Fund – this is funding to support the delivery of the transformation programme	3.675	3.941
Community Priority Fund – set aside to support key initiatives of the administration.	1.351	2.235
Revolving Investment Fund – set aside to fund the up-front costs of the schemes within the investment fund.	1.126	2.106
New Homes Bonus – a top slice of government funding that will be used to fund capital investment within the borough.	0.657	0
Croydon Enterprise Loan Fund – a reserve created to help Croydon businesses access an economic loan fund	750	0

Reserve	Balance 31/3/2016 £m	Balance 31/3/2015 £m
PEOPLE		
Transformation of Adult Social Care Programme	0.552	0
Unaccompanied Minors Asylum Seekers Grant – set up to manage the council’s spend on asylum seekers. There is a risk that the costs funded by the Home Office reduce in future years.	1.031	1.216
Troubled Families	0.927	1.527
Best Start – transformation	1.721	0.113
PLACE		
Growth Zone funding received from the DCLG to fund early life of zone	7.000	0
Selective Licencing – income from private rental licencing scheme to be used over the life of the licence to improve the standards of private rental housing within the Borough	6.208	0
Street Lighting PFI sinking fund – this is now being reported as a long term provision, which better fits its purpose	0	8.731
RESOURCES		
Public Health Transformation	1.565	2.254
Other (only identified if over £0.5m as at 31 March 2016)	5.608	7.461
TOTAL EARMARKED RESERVES	**32.171**	**29.584**

SCHOOLS RESERVES

7.4.5 The overall value of school reserves have decreased by £2.361m to £7.399m. This includes a decrease in revenue by £2.138m to £6.282m and a decrease in capital by £0.093m to £0.581m.

7.4.6 A number of schools have converted to academies during the financial year. The balances of the closing schools are not included in the above totals, as they are transferred to the academy. Some schools hold additional revenue balances for community purposes. These balances decreased by £0.130m to £0.476m Details of each school's 2015/16 year-end balance are shown in Appendix 3.

7.4.7 The government as allowed Schools' Forums to set their own policy on reviewing levels of balances held by schools. The Schools Forum agreed a maximum of 4% for Secondary Schools and 6% for all other schools of revenue reserves as a percentage of annual funding received.

7.4.8 Table 15 below lists all schools that ended 2015/2016 in revenue deficit and includes those that had approved licensed deficits.

Table 15 Schools in revenue deficit and action plans

School in deficit at end of 15/16	Deficit at end of 2015/16 £	Licensed deficit plan	Deficit agreed in 2015/16 plan £	Notes – explain the plan OR explain why a deficit with no plan
Kensington Avenue Primary	10,552	None	-	School did not forecast a deficit at start of year but approached one in Quarter 3. The school has since closed their accounts with a deficit and this will be reviewed with the school in the coming year.
The Priory Special School	51,500	None	-	School did not forecast a deficit at start of year but approached one in Quarter 3. The school has since closed their accounts with a deficit and this will be reviewed with the school in the coming year.
Saint Andrew's Church of England High	409,150		410,934	The school is looking to address the pupil numbers and also undertake a staffing review. A financial viability study indicates that the school needs to expand to a minimum of 6 FE in order to achieve and sustain a balanced budget. With the rising numbers coming through KS2, this is an ideal time to invest the capital to enable this to happen.
ArchBishop Tenison's Church of England High	607,981		660,101	The school plans to review their contracts to create greater efficiency in curriculum delivery and plans cuts to key major contracts. As well as increasing pupil numbers with the support of the local authority, the school has recruited budget advisory services to support their deficit reduction plan.
Virgo Fidelis	638,062		120,182	Deficit is a result of low pupil numbers, being addressed by raising the profile of the school to attract more applications. In addition there is a staffing review to replace existing teachers with NQTs and further restructures.

7.4.9 Table 16 below shows the total balances held by maintained schools, and gives details of how many schools hold balances over the threshold set by Schools Forum.

Table 16 - Schools Revenue Balances

Type of School	Number of schools	Total Balances £m	Percentage of Schools above Schools Forum Guidance	Number of schools in deficit	Percentage of Schools in deficit
Nursery Schools	6	0.236	3	0	0%
Primary Schools	50	5.783	18	1	2%
Secondary Schools	7	(1.008)	0	3	43%
Special schools	6	0.914	0	1	16%
PRUs	4	0.357	3	0	0%
Total	**73**	**6.282**	**24**	**5**	**7.5**

Note: Values in the above table excludes community reserves and Capital reserves held by schools, and includes all maintained schools at the end of March 2016.

General Fund Provisions

7.4.10 The General Fund provisions are analysed in table 17 below. A provision is a sum of money held for a specific purpose to cover a potential cost, where the amount or timing is not certain, and an overall increase of £0.147m is recommended.

Table 17 - General Fund Provisions

Provisions	Balance 31/03/2014 £m	Balance 31/03/2015 £m	Balance 31/03/2016 £m
Provision for Doubtful debts	23.644	25.589	21.858
Insurance Fund	8.454	6.400	4.811
Street Lighting PFI Sinking Fund	0	0	8.010
Other provisions	1.271	1.524	1.686
Total	**33.369**	**33.513**	**33.366**

7.4.11. Table 18 below shows the combined total of general fund balances and earmarked reserves. Overall, general fund and earmarked reserves represent around 16% of the Council's net budget requirement.

Table 18 : Reserves and Budgeted Net Operational Expenditure

Balances and reserves	2012/13 actual £m	2013/14 Actual £m	2014/15 actual £m	2015/16 Actual £m
General Fund balances	11.597	11.597	10.677	10.677
Earmarked reserves	60.047	59.366	29.540	32.171
Total	**71.644**	**70.963**	**40.177**	**42.848**
Net Budget Requirement	**267,707**	**292,716**	**279,079**	**259,999**
General Funds Balances % of net budget requirement	**4.33%**	**3.96%**	**3.83%**	**4.1%**

7.5 STRONG FINANCIAL SERVICES, SYSTEMS, PROCESSES AND GOVERNANCE

7.5.1 Financial management continues to be an area of strength for the organisation which has resulted in positive external audit opinions. Despite this strong performance it is clear that the challenge for the public sector will become greater over the coming years.

7.5.2 Grant Thornton presented their Audit Findings Report to General Purposes & Audit Committee in September 2015 with an unqualified audit opinion on the Council's Financial Statements.

7.5.3 The Council delivers a comprehensive internal audit plan through a contract with Mazars Public Sector Internal Audit Ltd. The plan includes key financial systems, risk based audits from across the organisation as well as probity audits in schools and other establishments. The internal audit plan has been delivered in full with all field work completed by the end of March 2016. This will be the tenth successive year that the plan has been delivered in its entirety 'in year'. The detailed audit outcomes for the key financial audits are shown in Table 19 below.

7.5.4 From all audits finalised to date, 75% have been given a full or substantial assurance level. After each audit is finalised there is a robust follow-up procedure to ensure that agreed recommendations are implemented. At this point in the year, 78% of recommendations made in audits for 2014/15 and

88% of recommendations made in 2015/16 have been implemented. Internal audit will continue to follow-up on these until the vast majority have been implemented, including any high priority recommendations.

Table 19 – 2015/16 Audit Plan

2015-16 Audit Plan	Assurance
Community Care Payments	Limited
Council Tax	Substantial
Creditors (inc P2P)	Substantial
Debtors & Debt Recovery	Substantial
Housing Benefits	Substantial
Housing Rents & Accounting	Substantial
Housing Repairs	Substantial
Main Accounting System	Substantial
Non Domestic Rates (NDR)	Substantial
Parking Control (Permits) – report is still draft	Limited
Payments to Schools	Substantial
Payroll	Full
Pensions	Substantial
Treasury Management	Full

ANNUAL GOVERNANCE STATEMENT (AGS)

7.5.5 The Accounts and Audit Regulations 2015 require the Council to review, at least annually the effectiveness of its system of internal control and publish an Annual Governance Statement (AGS) each year with the financial statements.

The information for the AGS has been collected from the following sources;-

- External Audit;
- Internal Audit;
- Risk Management Process;
- Executive Directors Assurance Statements; and
- Performance Management.

7.5.6 There are detailed actions to manage and mitigate the risks identified within the Annual Governance Statement, which will be monitored by the Corporate Leadership Team on a quarterly basis to ensure appropriate action is taken in-year. The AGS will be reported separately on the same agenda.

7.6 Financial Performance Data

7.6.1 Table 20 below sets out sundry debt collection performance for 2015-16. Collection rates remained strong throughout the year, although collection of up to 30 days and 60-90 day debt were skewed by a small number of high value invoices outstanding at that time, which significantly reduced the percentage collected.

Table 20 – Sundry debt collection performance in 2015-16

Age of debt	Debt Issued £	Debt Outstanding at 31-3-2016 £	Actual Collection Rate at 31-3-2016	Target Collection Rate
1 month	5,742,774	2,037,589	64.5%	**80%**
2 months	4,561,346	502,837	89.0%	**85%**
3 months	7,011,322	3,599,321	48.7%	**90%**
4 to 12 months	53,552,361	512,638	99.0%	**95%**

Collection Fund -

7.6.2 The Collection Fund is a ring-fenced account to which all sums relating to Council Tax and Business Rates are paid. Any deficits on the Fund, in relation to Council Tax or Business Rates, must be met by the precepting bodies, but any surpluses can be used by those bodies to fund expenditure within their own organisation. Any surpluses or deficits in relation to Council Tax are shared between the Council and the GLA, whereas Business Rates amounts are shared between the Council, GLA and the Department for Communities and Local Government (DCLG). Table 21 below sets out the position of the Collection fund at the end of 2015/16.

Table 21 – Collection Fund at 31 March 2016

	Council Tax £m	Business Rates £m	Total Collection Fund £m
Overall (surplus) / deficit	(£13.141)	£26.884	£13.743
Croydon Council - split	79.6%	30%	-
Croydon Council - Amount	**(£10.472)**	**£8.065m**	**(£2.407)**

7.6.3 The Collection Fund reported a surplus of £13.141m in relation to Council Tax (Croydon Council share is £10.497m) as at 31st March 2016. This was due primarily to growth in the council tax base, as well as stronger collection than budgeted. The declared surplus in January 2016 was £11.589m (Croydon's share £9.232m) which will be distributed in 2016/17.

7.6.4 For Business Rates there is a deficit of £26.884m (Croydon Council share £8.065m) primarily due to having to increase the provision for outstanding appeals to £26.5m. In January 2016 a deficit of £18.281m was declared (Croydon's share £5.484m)

7.6.5 Croydon's combined share is therefore a credit of (£2,407m) as the Council only receives a 30% of the portion of the collection fund in deficit, whereas it receives over 79% of the portion of the fund in surplus.

7.6.6 The Best Value Performance Indicator (BVPI) target relates to the amount of debt collected in the initial year of billing (2015/16 debt collected in 2015/16). The target set for 2015/16 was 96.50% and the actual BVPI performance was confirmed at 96.45%, a shortfall of 0.05%. The net collectable debt for council tax in 2015/16 was £178.1 million, an increase of £3.8 million on the previous year. Table 22 shows the impact of actual performance against the target in cash terms.

Table 22 – The BVPI target and performance for Council Tax Collection

	2015/16 Target £000	2015/16 Actual £000	Variance £000
% collection	96.50%	96.45%	-0.05%
£ collection	171,827	171,738	(89)

Note: These figures relate to amounts collectable for 2015/16 only; the amounts shown in the Collection Fund include variations to the debit for all past years up to and including 2015/16.

7.6.7 This is the best ever collection of Council Tax in year. The collection rate was broadly unchanged on last year whilst the net collectable debit increased by £3.70 million.

National Non Domestic Rate (NNDR) Collection –

7.6.8 The target set for 2015/16 was 98.75% and the actual BVPI performance was confirmed at 97.74%, a shortfall of 1.01%. The collectable debt for business rates in 2015/16 was £117.4m. Table 23 shows the impact of actual performance against the target in cash terms.

Table 23 – The BVPI target and performance for NNDR Collection

	2015/16 Target £000	2015/16 Actual £000	Variance £000
% collection	98.75%	97.74%	-1.01%
£ collection	115,971	114,785	(1,186)

7.6.9 Business rates collection performance showed a decrease of 0.48% collection from last year. The net collectable debit decreased by £523k from the previous year. The main reasons for this were the large number of NNDR rating appeals resulting in ratepayers holding back payment pending the outcome of their appeals; and two accounts with large rateable values where the ratepayers are withholding payment whilst the liability is in dispute.

8. FORMAT OF THE ACCOUNTS

8.1 There are no major changes to the format of the draft accounts in 2015/16. There are a number of assumptions and estimates on which the figures in the accounts are reported. The main estimates are discussed in the following sections:

8.2 Properties are valued based on valuations prepared by the Council's external professional valuers. They are then depreciated over the useful economic life of the asset based on the asset category. Variations in property valuations and useful economic life estimates could have a major impact on the total comprehensive income and expenditure and the balance sheet net balances value.

8.3 Estimates are used in the preparation of the provision for doubtful debt. The Council uses historical collection rates when estimating these provisions. Changes in collection rates could have an impact on the total comprehensive income and expenditure position.

8.4 The Council aims to take a prudent approach when making estimates to ensure that they do not overstate their position. Where possible the Council uses professional guidance in calculating the value of its assets.

EXTERNAL AUDIT OF THE ACCOUNTS

8.5 The accounts will now be subject to external audit. The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the National Audit Office Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

8.6 Audit in the public sector is under-pinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- Auditors may report aspects of their work widely to the public and other key stakeholders.

8.7 Auditors are required by the statutory Code of Audit Practice for Local Government bodies (the Code) to issue a report to those charged with governance summarising the conclusions from the audit work. This is called the International Standard on Auditing (ISA) 260 Report and should be completed in September for consideration by the General Purposes Audit and Advisory Committee. The principal purposes of the report are:

- to reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and those charged with governance;
- to share information to assist both the auditor and those charged with governance to fulfil their respective responsibilities; and
- to provide recommendations for improvements arising from the audit process.

8.8 Those charged with governance will be required to review this report in September 2016 in order to:

- consider the statement of accounts before the financial statements are approved and certified; and
- ensure the representation letter can be signed on behalf of the authority by the Assistant Chief Executive Corporate Resources and Section 151 Officer and those charged with governance before Grant Thornton issues its opinion on the financial statements.
- given the opportunity for those charged with governance to amend the financial statements for the unadjusted misstatements/significant qualitative aspects of financial reporting issues identified above.

8.9 Should Members choose not to amend the financial statements, in accordance with ISA 260, the Auditors will request that members extend the representation letter to explain why adjustments are not being made to the financial statements.

8.10 The Assistant Chief Executive Corporate Resources and Section 151 Officer will advise Members of the Committee accordingly throughout this process.

PUBLIC ACCESS

8.11 The Council has improved Public Access and awareness of the Council's Accounts through its Public Access Strategy. The Council's accounts will be available for public inspection for a period of 30 days, which commences the day after the Council's accounts are signed and published on the Council's internet site. It is anticipated that this period will begin on Monday 20th June, and run until Friday 29th July. During this time, the Accounts will be available via the Council's enhanced public website both as part of the Committee agenda and as a separate web presence in the in the Council and Democracy web pages, as well as at Bernard Wetherill House.

8.12 The Accounts and Audit (England) Regulations 2015 also require publication (including on the Council's website) of the statement of accounts together with any certificate, opinion, or report issued, given or made by the auditor, which will be completed ahead of the statutory deadline of 30th September.

9. FINANCIAL CONSIDERATIONS

9.1 The body of the report sets out the 2015/16 outturn in the context of the Council's Financial Strategy as approved by Cabinet on the 23 February 2015

10. LEGAL CONSIDERATIONS

10.1 The Council Solicitor comments that under the Accounts and Audit (England) Regulations 2015 no later than 30th September the Council must:

(a) consider either by way of a committee or by the members meeting as a whole the statement of accounts;

(b) following that consideration, approve the statement of accounts by a resolution of that committee or meeting;

(c) following approval, ensure that the statement of accounts is signed and dated by the person presiding at the committee or meeting at which that approval was given;

10.2 Under the Financial Regulations which form part of the Constitution, the Chief Financial Officer has the delegated responsibility to spend balances and reserves in accordance with the final accounts that are received at General Purposes & Audit Committee. However, the General Purposes & Audit Committee is required to sanction any changes to the agreed amounts if they differ.

Approved for and on behalf of Gabriel Macgregor, Head of Corporate Law, Acting Council Solicitor and Acting Monitoring Officer.

11 OTHER CONSIDERATIONS

11.1 There are no HR, equalities, environmental, crime and disorder, and human rights considerations arising directly from this report.

Approved by: Michael Pichamuthu - Strategic HR Business Partner

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CONTACT OFFICER: Richard Simpson – Assistant Chief Executive Corporate Resources & Section 151 Officer

BACKGROUND DOCUMENTS: Exempt